

**ORGANIZATIONAL EXAMINATION**

**OF**

**NAXOS INSURANCE COMPANY**

**AS OF**

**MARCH 6, 2007**

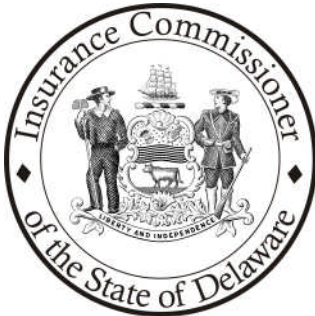
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached ORGANIZATIONAL REPORT ON EXAMINATION, made as of MARCH 6, 2007 of the

**NAXOS INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 13 APRIL 2007



*In Witness Whereof,* I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 13TH DAY OF APRIL 2007.

*Matthew Denn*  
Insurance Commissioner

**REPORT ON ORGANIZATIONAL EXAMINATION**  
**OF THE**  
**NAXOS INSURANCE COMPANY**  
**AS OF**  
**MARCH 6, 2007**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", is positioned above a horizontal line.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 13TH day of APRIL, 2007.

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## **SALUTATION**

March 6, 2007

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07.024, dated February 26, 2007, an Organizational Examination has been conducted of the

### **NAXOS Insurance Company**

hereinafter referred to as “NAXOS” or “the Company”, incorporated under the laws of the State of Delaware as a stock company with its statutory office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The registered agent at such address is Corporation Services Company. The Company’s main administrative office is located at 120 W. 45<sup>th</sup> Street, 36<sup>th</sup> Floor, New York, NY 10036. This examination was conducted at the Company’s administrative office in New York, NY.

The report of such examination is respectfully submitted herewith.

## **SCOPE OF EXAMINATION**

This organizational examination was conducted in conjunction with the Company's application for a domestic Certificate of Authority in the State of Delaware. I have reviewed the Company's corporate records, records applicable to and attendant with its application, as well as financial data as of March 6, 2007.

## **HISTORY**

NAXOS was incorporated on December 7, 2006, under the laws of the State of Delaware and authorized to issue fifty thousand (50,000) shares with a par value of \$100.00 per share. As evidenced by Certificate No. 1, twenty-six thousand (26,000) shares of the Company were issued to Delos Insurance Company (Delos), a Delaware domestic insurer, on January 18, 2007, giving the Company paid up capital of \$2,600,000. The remaining twenty-four thousand (24,000) unissued shares are held in reserve for future issue.

## **MANAGEMENT AND CONTROL**

The Company's by-Laws, adopted January 17, 2007, state that the business and affairs of the Company shall be managed by a Board of Directors consisting of "not less than three (3) nor more than fifteen (15)" Directors. Directors need not be residents of the State of Delaware or shareholders of the Company. As of the examination date, the Company maintained three (3) Directors. The Directors are to be elected at the annual meeting of the Company's stockholder and shall hold office until the next succeeding annual meeting. The following individuals were elected and qualified members of the Board of Directors as of the examination date:

## **Board of Directors**

Dr. Detlef Steiner  
William F. Davis  
Grace A. Meek

Chairman of the Board

## **Committees of the Board of Directors**

In accordance with Section 7 of Article III of the by-Laws, the Board of Directors, pursuant to a resolution adopted by a majority of the full Board of Directors, may designate from among its members and Executive/Finance Committee or one or more other committees, each of which, to the extent provided in such resolution, shall have and may exercise all of the authority of the Board of Directors, except that no such committee shall have the authority of the Board of Directors in reference to amending the certificate of incorporation, adopting and agreement of merger or consolidation, recommending to the shareholders the sale, lease, or exchange of all or substantially all of the property and assets of the Company, recommending to the shareholders a voluntary dissolution of the Company or a revocation thereof, or amending, altering or repealing the By-Laws of the Company. As of the examination date, no committees had been established.

## **Officers**

In accordance with Section 1 of Article IV of the Company's by-Laws, the officers of the Company shall be a Chairman of the Board, a Chairman of the Executive/Finance Committee, a President, a Treasurer, a Secretary and such Vice Presidents, Assistant Treasurers, Assistant Secretaries or other officers as may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except the offices of President and Secretary. The officers of the Company shall be elected annually by the Board of Directors at the annual

meeting of the Board of Directors held after each annual meeting of shareholders. Each officer shall hold office until resignation, removal, death or until their successor shall have been duly elected and qualified. Elected officers serving the Company as of the examination date were as follows:

<b><u>Officer</u></b>	<b><u>Position</u></b>
Dr. Detlef Steiner	Chairman of the Board
William F. Davis	President and Treasurer
Jean M. Cho	Senior Vice-President, General Counsel and Corporate Secretary
Grace A. Meek	Chief Business Officer
Mary E. Sbaschnig	Chief Administrative Officer

The Board had not appointed a Chairman of the Executive/Finance Committee as of the examination date. The NAIC Biographical Affidavits of the Company's Officers and Directors were reviewed during this examination. In addition, both the Code of Ethics Policy and Certification, as adopted by the Company's parent Board of Directors, and the signed Conflict of Interest Statements of the Company's Officers and Directors, were read and accepted without exception.



## **HOLDING COMPANY SYSTEM**

At formation, the Company became a member of an Insurance Holding Company System. The Company filed an Insurance Holding Company Registration Statement (IHCR Statement) with the Delaware Insurance Department on January 18, 2007, which was reviewed for the purposes of this examination. Lightyear Delos Acquisition Company (Lightyear), a privately held corporation incorporated in January 2006 and which acquired Delos Insurance Company on August 2, 2006, is an insurance and financial services holding company. The following entities owned or controlled greater than 10% of voting securities of Lightyear as follows:

	Voting Common <u>Shares</u>	Voting Preferred <u>Shares</u>	Voting Control <u>Percent</u>	Economic Interest <u>Percent</u>
Lightyear Fund II, L.P.	3,282,922	4,924,382	51.97%	46.23%
White Mountains Investments (Bermuda) Ltd.	1,254,400	1,881,600	19.86%	17.67%
Lehman Brothers Merchant Banking Partners III, L.P.	802,773	1,204,160	12.71%	11.31%
	Non- Voting Common <u>Shares</u>	Non- Voting Preferred <u>Shares</u>	Voting Control <u>Percent</u>	Economic Interest <u>Percent</u>
AlpInvest Partners CS Investments 2006 C.V. *	775,454	1,163,182	0.00%	10.92%

As noted in the subscription agreement and equity commitment letters, in exchange for the issuance of preferred stock and common stock of Lightyear on August 2, 2006, Lightyear Fund II, L.P. (Lightyear Fund), White Mountains Investments (Bermuda) Ltd. (Bermuda), and Lehman Brothers Merchant Banking Partners III, L.P. (Lehman Brothers) agreed to contribute \$32,000,000, \$40,017,508, and \$32,000,000, respectively, to Lightyear. The amounts contributed by AlpInvest Partners CS Investments 2006 C.V. (AlpInvest) and the other immaterial persons and entities associated with control of Lightyear were not reviewed.

The organizational chart as of the examination date with control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

	<u>Voting Control</u>	<u>Economic Control</u>
White Mountains Insurance Group Ltd. [Bermuda]{1}{2}	100.00%	100.00%
White Mountains Holdings Bermuda Ltd. [Bermuda]	100.00%	100.00%
Lone Tree Insurance Group Ltd. [Bermuda]	100.00%	100.00%
Lone Tree Holdings Ltd. [Bermuda]	100.00%	100.00%
White Mountains Investments (Bermuda) Ltd. [Bermuda]	19.86%	17.67%
Lehman Brothers Merchant Banking Partners III, L.P. [DE]{1}{3}	12.71%	11.31%
Lightyear Fund II, L.P. [DE] {1}{4}	51.97%	46.23%
AlpInvest Partners CS Investments 2006 C.V. [Neth.]{1}{5}	0.00%	10.92%
All Other Entities Combined {6}	15.46%	13.87%
Lightyear Delos Acquisition Corp. [DE]	100.00%	100.00%
Lightyear Delos Sub Corp. [DE]	100.00%	100.00%
Delos Insurance Company [DE]	100.00%	100.00%
<b>NAXOS Insurance Company [DE]</b>		

- {1} Considered an ultimate controlling entity of NAXOS for purposes of this examination
- {2} No entity or person controls greater than 50.36% of the voting power or 56.61% of the economic interest of White Mountains Insurance Group Ltd. as of the examination date
- {3} No entity or person controls greater than 78.69% of the voting power or 88.45% of the economic interest of Lehman Brothers as of the examination date
- {4} No entity or person controls greater than 19.24% of the voting power or 21.63% of the economic interest of Lightyear Fund as of the examination date
- {5} No entity or person controls greater 91.58% of the economic interest of AlpInvest as of the examination date
- {6} No entity or person individually controls greater than 10% of the voting power or 10% of the economic interest of Lightyear as of the examination date

As of December 31, 2006, Lightyear reported GAAP assets totaling approximately \$661.23 million, GAAP liabilities totaling \$480.85 million, and GAAP capital and surplus of approximately \$180.38 million.

The most recent financial statements for Lehman Brothers and AlpInvest were not available for review as of the examination date. The most recent financial statements for the

other ultimate controlling entities were obtained and summarized as follows with the financial statement date in brackets and figures in 000s:

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
Lightyear Fund [09-30-06]	\$143,689	\$266	\$143,423
White Mountains [12-31-06]	\$33,168	\$2,855	\$30,313

As of December 31, 2006, Delos was rated A- (Excellent) and carries a Financial Size Category (FSC) rating of VIII by the rating agency A.M. Best. Delos was last examined by the Delaware Insurance Department for the period ending December 31, 2004.

As part of the examination, the Company's completed the NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated January 18, 2007, and effective January 18, 2007, was reviewed.

### **FIDELITY BOND COVERAGES**

As a wholly-owned subsidiary of Delos, NAXOS is included in all of Lightyear's insurance coverages. The Company is included as a named participant in the Fidelity Bond of Lightyear along with other subsidiaries of the holding company with a limit of \$5 million per loss, \$10 million policy aggregate and \$50,000 retention effective for one year from August 2, 2006. Additionally, Lightyear and its subsidiaries maintain coverage for Property, Computer/Inland Marine, General Liability, Business Auto, Workers Compensation, Umbrella, Directors & Officer Liability and Errors & Omissions Liability with limits up to \$25 million.

## **MANAGEMENT AND SERVICE AGREEMENTS**

### **Management Service Agreement**

As represented by management, the Company has no employees and has no future plans to hire employees. All underwriting, claims, legal, IT, administrative and other support staffing services will be provided by Delos. As represented by management, the Company intends to execute a service agreement between NAXOS and Delos for that purpose. Upon execution of such agreement, the Company will immediately file a Form D with the Delaware Insurance Department. The Record Retention policies and procedures of Delos were reviewed without exception.

### **Consolidated Tax Agreement**

The Company will be a party to the Tax Allocation Agreement currently in place for Delos with an effective date of August 2, 2006. Delos' existing Tax Allocation Agreement has already been filed and approved by the Delaware Insurance Department. Upon licensure of NAXOS, the Company will submit a Form D filing to the Delaware Insurance Department in connection with this agreement.

### **Investment Management Agreement**

As represented by management, the Company will be included in the Investment Management Agreement by addendum that Delos is a party to with White Mountains Advisors LLC, a Delaware limited liability corporation, originally dated May 24, 2004. The Company will be subject to the same Investment Policy and Guidelines of its direct parent Delos. Delos' Investment Management Agreement and its Investment Policy and Guidelines were reviewed without exception. Investment management services provided by White Mountains Advisors

LLC to Delos are considered all inclusive and annual fees charged are calculated based on the market value of the invested assets as follows:

Investment Grade Bonds from \$0 to \$999 million	10 basis points
Investment Grade Bonds from \$1 billion to \$1.999 billion	8.5 basis points
Investment Grade Bonds over \$2 billion	7.5 basis points
High Yield Debt	25 basis points
Hedge Funds	100 basis points
Equities from \$0 to \$200 million	100 basis points
Equities from \$201 million to \$399 million	50 basis points
Equities over \$400 million	25 basis points

Upon licensure of NAXOS, the Company will submit a Form D filing to the Delaware Insurance Department in connection with this agreement.

#### Custodial Agreement

NAXOS will have custodial agreements with the same banks/trusts as its direct parent Delos. Upon licensure of NAXOS, an account with Wilmington Trust Company of Delaware will be established and held by Delaware Insurance Department for the security of all policyholders.

### **PLAN OF OPERATION**

As obtained from its 2007-2011 Plan of Operation and pending approval, the Company is being formed to provide commercial insurance coverage on an excess and surplus lines basis throughout the United States. NAXOS is a wholly-owned subsidiary of Delos, a primary insurance provider that is admitted to write property and casualty insurance coverage in all fifty states and the District of Columbia. It is anticipated that NAXOS will be utilized by the Delos Group to support its current business model of providing property and casualty insurance

coverages underwritten and administered by managing general agents (MGAs), managing general underwriters (MGUs) and other program managers. It is intended that the Company, when properly licensed, will begin writing commercial property and liability coverage's in all fifty states in which it will eventually become licensed as a surplus lines writer. It is intended that the Company will utilize only selected MGAs, MGUs, TPAs and other outside service firms for policy management, claims administration, rate and form filing, and other selected administrative functions. Advertising will be limited and directed to surplus lines brokers, not the general public.

### **REINSURANCE**

As represented by management, and pending proper licensing and approval from the Delaware Insurance Department, it is intended that the Company and its direct parent Delos will enter into net quota share reinsurance arrangements for selected programs as the need arises. The Company has stipulated that when that need arises, it will file any intercompany reinsurance agreements in a Form D filing with the Delaware Insurance Department. Management represents that NAXOS will participate in any global reinsurance coverage placed by the Delos Group with unaffiliated reinsurers according to its net subject liability. Third-party reinsurance will be limited to a select number of high-quality reinsurers. To the extent that any third-party reinsurer is non-admitted, the Company will obtain security consistent with the applicable reinsurance credit laws to assure maintenance of excellent financial condition. All reinsurance purchases will comply with the security guidelines previously established by the Delos Group.

### **CAPITAL AND SURPLUS REQUIREMENTS**

18 Del. C. § 511(a) requires the following minimum capital and surplus amounts for a stock multiple line insurance company:

Common Capital Stock	\$500,000
Surplus as Regards Policyholders	<u>250,000</u>
Total Capital and Surplus	<u>\$750,000</u>

As shown in the Financial Data section of this report, as of the examination date, the Company possessed Capital of \$2,600,000 and Surplus as Regards Policyholders of \$20,000,000.

### **FINANCIAL DATA**

The financial position of the Company as of the examination date, as determined by this organizational examination was as follows:

<u>Assets</u>	
Cash Held at Bank of New York	<u>\$20,000,000</u>
Total Admitted Assets	<u>\$20,000,000</u>
<u>Liabilities, Surplus and Other Funds</u>	
Total Liabilities	<u>\$0</u>
Common Capital Stock	\$2,600,000
Gross Paid In and Contributed Surplus	17,400,000
Unassigned Funds	<u>0</u>
Surplus as Regards Policyholders	<u>\$20,000,000</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$20,000,000</u>

## **NOTES TO FINANCIAL STATEMENTS**

The Company is in the process of setting up the general ledger and journal. The system will be set up in the Company's Great Plains accounting software program, which is the same system used by the Company's direct parent Delos. As of the examination date, the Company has incurred no revenues or expenses and holds no other assets other than those listed above. Likewise, the Company has no liabilities as of the examination date.

The \$20,000,000 cash reported as of the examination date was confirmed directly with the Bank of New York.

## **CONCLUSION**

Based on the organizational examination conducted as of March 6, 2007, the financial condition of the NAXOS Insurance Company was found to be as follows:

Assets	<u>\$20,000,000</u>
Liabilities	<u>\$0</u>
Capital Stock	\$2,600,000
Paid In and Contributed Surplus	<u>17,400,000</u>
Total Surplus as Regards Policyholders	<u>\$20,000,000</u>

Upon completion of the organizational examination, the Company has complied with the capitalization requirements for the State of Delaware. The examination was conducted by the undersigned.

Respectfully Submitted,



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Andrew E. Chiodini, CFE  
Examiner-In-Charge  
Department of Insurance  
State of Delaware